

Agenda Item G.1-2

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STATUS OF U.S. PROCESSING AGREEMENT

EXECUTIVE SUMMARY

This describes the U.S. portion of the Argos Joint Tariff Agreement (JTA). In 2004, the U.S. used 1734 Platform Years (+15% increase over 2003) and 50,857 Active Platform Months (+12%) with an associated total User Cost of 4,142,757 Euros (+12%). The U.S. tariff arrangement changes in 2005 as it is participating under the new JTA pilot program tariff with the following highlighted changes: no advance commitment purchase, users are directly invoiced by Service Argos, Inc. (SAI), users pay after services are rendered, and a single effective tariff rate structure is applied globally to all users.

ACTIONS REQUIRED

1. Encourage the JTA to closely examine and consider making adjustments to the new pilot tariff so that it is reasonably fair to all users and all user platform types -- The JTA should examine the initial new pilot program tariff experience (first three quarters of 2005) and compare the overall user costs of the JTA with the relative cost impacts on its various user platform types. The new tariff was created and proposed by CLS, and it was subsequently adopted by the JTA without a complete understanding of what actual tariff cost impacts would be borne by every user and every user platform type. The JTA expected the new tariff to be largely positive in having the same global tariff rate for all countries and user platform types (by eliminating the bonus). The majority of users should experience the benefit of a cost reduction. The new tariff structure, however, was more favorable to some user platform types. Some JTA ROCs and several users have expressed grave concern that some user platform types -- in particular the marine mammal trackers -- would pay significantly higher costs than previously and more in comparison to other user platform types.
2. Encourage the JTA and CLS/SAI to continue 'soft landings' to users facing adverse cost impacts for existing programs -- CLS/SAI have done a good job in

working with many users to provide a 'soft landing' in 2005 for situations where the new tariff would adversely impact existing programs. A longer period of relief for 2006 and beyond may be needed for some of these programs if adjustments to the tariff in 2006 and beyond are not adequate to solve these adverse impacts, e.g., for existing programs who planned their deployments and budgeted costs on the basis of the old tariff system.

3. The Argos Operating Committee should continue to examine the JTA tariff income burden to government environmental users on an annual basis - Over the past 3 years, the global JTA income has increased 18% largely driven by a US JTA income increase of 44% and a NOAA JTA income increase of 69%. These real, significant income increases should be examined for reasonableness. It is clear that the growth in U.S. and NOAA deployments have driven up the income during this period, but it is not clear what, if any, income increases are required to run the processing system. First, the service provider cost basis to run the processing system should be examined to ensure that it corresponds to real and required JTA services, and the ability of JTA users to cover those costs. Second, the JTA unit costs should decrease in relative proportion to overall use increases; this has been partially realized. Third, the JTA cost share should decrease in relative proportion to non-JTA use increases; this has been partially realized. The committee should ensure that the JTA user tariff is preferential in comparison with the non-JTA user tariff by specifically checking that the non-JTA income increases accordingly with use; and seeing that the JTA/non-JTA cost-share basis is adjusted in the JTA's favor as appropriate.
4. Encourage the JTA to improve its coordination of future significant changes with users and manufacturers - The JTA should notify and vet significant changes at least a year prior to implementation. When the new tariff structure was formerly announced in last November, several users were distraught to learn that the JTA would implement such a drastic changes in the tariff structure with little warning (1 month lead time) and without initially seeking their input on proposed changes. Several Argos transmitter manufacturers also expressed their dismay with the inadequate warning as this adversely impacted their marketing plans and customer orders. For example, one manufacturer had to 'scrap' a market-ready new product designed to take advantage of the old tariff when it suddenly became obsolete with the new tariff. Some, if not all, manufacturers

had to change or delay in-process customer orders in response to the new tariff announcement. The manufacturers indicated it takes many months to develop a new model Argos transmitter and/or to make extensive software changes in existing models; and that these are typical market responses to significant cost structure changes as users seek to maximize data efficiency and minimize costs. The JTA leadership (ROCs and CLS/SAI) have made excellent efforts to coordinate information with Argos customers, but communications can be further improved with the associated manufacturer and user communities.

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In 2004, the U.S. contracted/committed to 975.0 platform years, and came close to plan with an actual use of 1734 Platform years a 15.2% increase over 2003. The U.S. enjoyed a healthy bonus of 759 Platform years (78% of the 82% maximum). The U.S. had 50,857 Active Platform Months an increase of 12.8%. The total U.S. JTA cost for 2004 was 4,142,757 Euros an increase of 12.5%. The percentage of total use by service category was Standard Location 77%, Limited Use 18%, Standard Collection (only) 4%, and Backup 2%.

For 2005, the U.S. expects its user community and its use to increase significantly at/above the previous 5-year average of 12%. For future years, the U.S. is anticipating continued growth in the biologist research community and within NOAA for building a sustained ocean observing system for climate.

The U.S. tariff arrangement changes in 2005 as it is participating under the new JTA pilot program tariff. It is too soon to evaluate the cost impacts of the new tariff structure on U.S. users; this will be done when the first quarter (and subsequent quarter) data is made available to the ROC.

The new tariff has already brought the following beneficial changes. First, the ROC is no longer required to make an advance commitment purchase for the U.S. JTA. This process had been very time consuming and the forecast accuracy problematic in prior years due to the low response rate of existing users on estimated use for the new year; and the unknown number of new users and their usage. The U.S. is no longer obligated to a minimum set cost no matter the actual use mitigating the risk of paying more than the level of actual service.

Second, JTA users are now being directly invoiced quarterly for JTA costs by SAI eliminating the previous ROC annual invoicing. NOAA benefits by the elimination of the JTA ROC

administrative overhead to allocate costs to users, and to invoice, collect, and maintain user accounts. NOAA had been performing this at no cost to the users (or CLS/SAI) for the past 25 years! The current ROC has collected \$15M from 500 users over the past 7 years and distributed these funds to SAI. By ending all this, NOAA estimates future savings of about \$75K/yr. NOAA also benefits by no longer being responsible for collecting JTA user payments for CLS/SAI, and the associated risk of covering delinquent balances owed. The ROC is now only invoiced by SAI for actual JTA costs covering a few NOAA accounts and NSF and ONR - a much more manageable and reasonable situation.

Third, users now "pay as they go", i.e., pay exactly for what they use when services are rendered not in advance. This is particularly attractive to small users and users with highly uncertain/problematic use such as biologists.

Fourth, a single effective tariff rate structure is applied globally to all users, and there is no cost advantage for advance payment with the termination of the bonus program. This is most beneficial to the many small users who had been paying up to 40% more because they received no bonus for advance payment and they incurred an additional administrative fee for invoicing/collection by SAI.

Fifth, NOAA's very large and growing use OCO and Argo programs have negotiated a 'bulk rate' arrangement with SAI for the next 2 years. SAI benefits by having a fixed income covering these programs. The NOAA programs benefit in containing their JTA costs within planned budgets for planned deployments of ocean climate observation platforms.

These changes and others in recent years have collectively provided a 'win-win' situation for everyone; users "pay as they go" to only one billing party, NOAA and the ROC have less administrative responsibility, and SAI has a more streamlined collection process with more direct contact to users.

The ROC is currently auditing and 'closing out' the NOAA JTA user accounts. This tedious task is necessary to ensure that all accounts are properly credited and transitioned to SAI. Significant credits are expected to accrue to many of the accounts taken over by SAI, i.e., transfer the credit amounts to the SAI accounts. This is expected to be completed by September 2005.